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5 **IN THE UNITED STATES DISTRICT COURT**  
6 **FOR THE DISTRICT OF ARIZONA**

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8 James McCalmont, *et al.*,  
9 Plaintiffs,  
10 v.  
11 Federal National Mortgage Association, *et  
al.*,  
12 Defendants.  
13

No. CV-13-02107-PHX-JJT

**ORDER**

14 At issue is Defendant's Motion for Summary Judgment (Doc. 107), to which  
15 Plaintiffs filed a Response (Doc. 137) and Defendant filed a Reply (Doc. 147). Also at  
16 issue is Plaintiffs' Motion for Partial Summary Judgment (Doc. 118), to which Defendant  
17 filed a Response (Doc. 133) and Plaintiffs filed a Reply (Doc. 151).

18 **I. BACKGROUND**

19 Plaintiffs James and Katherine McCalmont filed a Complaint (Doc. 1, Compl.) on  
20 October 16, 2013, alleging that they were “subjected to the repeated violation of and  
21 intentional non-compliance with the Fair Credit Reporting Act, 15 U.S.C. § 1681 *et seq.*”  
22 (Compl. ¶ 1.) Defendant, Federal National Mortgage Association (“FNMA”), is a  
23 government-sponsored entity created by Congress to purchase mortgage loans from lenders  
24 and thereby help stabilize the market for residential mortgages. Defendant licenses an  
25 automated underwriting system known as Desktop Underwriter (“DU”). (Compl. ¶¶ 18–  
26 19; Answ. ¶ 19.) DU informs lenders whether a prospective loan would be eligible for  
27 purchase by Defendant.

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1           Lenders who use DU input a consumer’s “tri-merge” credit report, which consists  
2 of the consumer’s credit reports from three of the top credit repositories in the United  
3 States. (Compl. at ¶ 21.) From there, DU generates a Findings Report that details the  
4 consumer’s credit and concludes whether or not a loan made to that consumer would be  
5 eligible for purchase by Defendant. (Compl. ¶ 30.) A Findings Report that lists a “Refer  
6 with Caution” rating indicates that Defendant would not purchase the subject mortgage  
7 loan.

8           The rating produced in a DU Findings Report is based on the consumer’s credit  
9 history—most relevant here, the program considers whether a consumer has completed a  
10 short sale of a property or whether a consumer’s property has been foreclosed upon. A loan  
11 to a consumer who made a short sale of a mortgaged property may still be eligible for  
12 purchase by Defendant, as long as the short sale occurred more than two years before the  
13 consumer’s current loan application. But if the consumer previously had a property  
14 foreclosed upon, he must wait seven years before any loan made to him becomes eligible  
15 for purchase by Defendant. Any application before those seven years are up would come  
16 back with a “Refer with Caution” rating and “be ineligible for delivery to [Defendant] as a  
17 DU loan.”

18           Plaintiffs allege that Defendant failed to distinguish between a foreclosure and a  
19 short sale in its DU algorithm. (Compl. ¶¶ 74–83.) Indeed, Defendant responded to  
20 widespread concern about this practice in 2013, when it released “Desktop Underwriter  
21 Clarification.” (Doc. 1-3, DU Clarification.) Defendant explained that DU reviews  
22 “manner of payment” (“MOP”) codes associated with important transactions in a  
23 consumer’s credit history as a way to determine the rating in the DU Findings Report. (DU  
24 Clarification at 1.) A foreclosure is indicated by MOP code 8 (foreclosure). And at the time  
25 of Defendant’s clarification, “no codes provided in the credit report data received by DU  
26 [] specifically identify a preforeclosure sale.”<sup>1</sup> (DU Clarification.) Thus, Plaintiffs allege  
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28           <sup>1</sup> Defendant uses the terms “preforeclosure sale” and “short sale” interchangeably.  
(DU Clarification at 1.)

1 that any consumer who engaged in a short sale had an MOP code 8 appear on his DU  
2 Findings Report, indicating a foreclosure that did not actually occur, and thereby rendering  
3 any loan within seven years of the short sale ineligible for purchase by Defendant. (Compl.  
4 ¶ 44.)

5 Plaintiffs negotiated a short sale of their real estate in 2009. (Compl. ¶ 34.) After  
6 waiting the requisite two years to apply for a new mortgage loan for a separate property,  
7 Plaintiffs were denied conventional mortgage financing multiple times. (Compl. ¶¶ 36–  
8 52.) Plaintiffs allege that “the ‘foreclosure’ notation [] was preventing them from obtaining  
9 financing.” (Compl. ¶ 52.)

10 Plaintiffs filed this action, seeking damages under 15 U.S.C. § 1681n and § 1681o,  
11 for both willful and negligent violations of the Fair Credit Reporting Act (“FCRA”).  
12 (Compl. ¶ 99.) In 2014, Defendant moved to dismiss the case on the grounds that it is not  
13 subject to the FCRA. (Doc. 23). District Judge Holland granted Defendant’s Motion and  
14 dismissed the case. (Doc. 38.) The Ninth Circuit later reversed. (Doc. 48.) The case was  
15 remanded and assigned to District Judge Tuchi (Doc. 53.) On March 21, 2018, Defendant  
16 filed a Motion for Summary Judgment (Doc. 107). Plaintiffs subsequently filed their own  
17 Motion for Partial Summary Judgment (Doc. 118).

18 **LEGAL STANDARDS**

19 **A. Motion for Summary Judgment**

20 Under Rule 56(c) of the Federal Rules of Civil Procedure, summary judgment is  
21 appropriate when: (1) the movant shows that there is no genuine dispute as to any material  
22 fact; and (2) after viewing the evidence most favorably to the non-moving party, the  
23 movant is entitled to prevail as a matter of law. Fed. R. Civ. P. 56; *Celotex Corp. v. Catrett*,  
24 477 U.S. 317, 322-23 (1986); *Eisenberg v. Ins. Co. of N. Am.*, 815 F.2d 1285, 1288-89 (9th  
25 Cir. 1987). Under this standard, “[o]nly disputes over facts that might affect the outcome  
26 of the suit under governing [substantive] law will properly preclude the entry of summary  
27 judgment.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). A “genuine issue”  
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1 of material fact arises only “if the evidence is such that a reasonable jury could return a  
2 verdict for the nonmoving party.” *Id.*

3 In considering a motion for summary judgment, the court must regard as true the  
4 non-moving party’s evidence, if it is supported by affidavits or other evidentiary material.  
5 *Celotex*, 477 U.S. at 324; *Eisenberg*, 815 F.2d at 1289. However, the non-moving party  
6 may not merely rest on its pleadings; it must produce some significant probative evidence  
7 tending to contradict the moving party’s allegations, thereby creating a material question  
8 of fact. *Anderson*, 477 U.S. at 256–57 (holding that the plaintiff must present affirmative  
9 evidence in order to defeat a properly supported motion for summary judgment); *First Nat’l*  
10 *Bank of Ariz. v. Cities Serv. Co.*, 391 U.S. 253, 289 (1968).

11 “A summary judgment motion cannot be defeated by relying solely on conclusory  
12 allegations unsupported by factual data.” *Taylor v. List*, 880 F.2d 1040, 1045 (9th Cir.  
13 1989). “Summary judgment must be entered ‘against a party who fails to make a showing  
14 sufficient to establish the existence of an element essential to that party’s case, and on  
15 which that party will bear the burden of proof at trial.’” *United States v. Carter*, 906 F.2d  
16 1375, 1376 (9th Cir. 1990) (quoting *Celotex*, 477 U.S. at 322).

17 **B. Fair Credit Reporting Act**

18 At issue in this case is an alleged violation of the Fair Credit Reporting Act  
19 (“FCRA”). The FCRA governs consumer reporting agencies (“CRAs”). A consumer  
20 reporting agency is

21 any person which, for monetary fees, dues, or on a cooperate nonprofit basis,  
22 regularly engages in whole or in part in the practice of assembling or  
23 evaluating consumer credit information or other information on consumers  
24 for the purpose of furnishing consumer reports to third parties, and which  
uses any means or facility of interstate commerce for the purpose of  
preparing or furnishing consumer reports.

25 15 U.S.C. § 1681a(f).

26 Under § 1681e (“Reasonable Procedures provision”) of the FCRA, “[w]henever a  
27 consumer reporting agency prepares a consumer report it shall follow reasonable  
28 procedures to assure maximum possible accuracy of the information concerning the

1 individual about whom the report relates.” 15 U.S.C. § 1681e(b). A “consumer report” is  
2 any

3 communication of any information by a consumer reporting agency bearing  
4 on a consumer’s credit worthiness, credit standing, credit capacity, character,  
5 general reputation, personal characteristics, or mode of living which is used  
6 or expected to be used or collected in whole or in part for the purpose of  
serving as a factor in establishing the consumer’s eligibility for-- (A) credit  
or insurance to be used primarily for personal, family, or household purposes.

7 15 U.S.C. § 1681a(d)(1).

8 A CRA may violate the FCRA either negligently or willfully. Under § 1681n  
9 (“willful noncompliance section”), a violator is liable to the consumer for: (1) any actual  
10 damages between \$100 and \$1000; (2) punitive damages; and (3) “the costs of the action  
11 together with reasonable attorney’s fees as determined by the court.” U.S.C. § 1681n(a).  
12 Under § 1681o (“negligent noncompliance section”), a violator is liable only for actual  
13 damages sustained by the consumer and “the costs of the action together with reasonable  
14 attorney’s fees as determined by the court.” U.S.C. § 1681o(a). In other words, a willful  
15 violation carries the additional consequence of punitive damages, while a negligent  
16 violation does not.

17 The willful noncompliance section contemplates not only those violations where a  
18 CRA acts knowingly, but also where a CRA acts recklessly in violation of the FCRA. *See*  
19 *Safeco Ins. Co. of America v. Burr*, 551 U.S. 47, 57–61 (2007). A CRA acts in reckless  
20 disregard of a consumer’s rights when its action “is not only a violation under a reasonable  
21 reading of the statute’s terms, but shows that the company ran a risk of violating the law  
22 substantially greater than the risk associated with a reading that was merely careless.” *Id.*  
23 at 69. Thus, as the Court explained in its July 20, 2017 Order, “a party alleging a willful  
24 violation of the FCRA under 15 U.S.C. § 1681n must establish that the defendant’s conduct  
25 reflected (1) an objectively unreasonable reading of the statute that (2) ran the risk of  
26 violating the law substantially greater than the risk associated with a mere careless  
27 reading.” (July 20, 2017 Order at 5.) Courts consider the following factors to determine  
28 whether a reading is objectively reasonable: (1) whether the interpretation is grounded in

1 the text of the statute; (2) whether there is a lack of guidance from appellate courts or the  
2 Federal Trade Commission that might have indicated the reading was incorrect; and (3)  
3 whether the FCRA itself is unclear on the issue. *Safeco Ins. Co. of Am.*, 551 U.S. at 69. A  
4 CRA who violates the FCRA, but did so based on an interpretation of the Act that was not  
5 objectively unreasonable, cannot be liable for a willful violation. That key distinction is at  
6 issue before the Court today.

7 **III. ANALYSIS**

8 Plaintiffs claim that Defendant, acting as a consumer reporting agency (“CRA”)  
9 violated the FCRA either willfully or negligently. Defendant moves for summary judgment  
10 on the basis that it is not a CRA, and if it is, that it is not subject to either willful or negligent  
11 liability under the FCRA. (MSJ at 6–18.)

12 The Ninth Circuit’s recent memorandum opinion in *Zabriskie v. Federal National*  
13 *Mortgage Association*, 17-16000 (9th Cir. Dec. 26, 2018) is dispositive here. In that similar  
14 action, to which Defendant was also a party, the Ninth Circuit held that Defendant is not a  
15 CRA and therefore is not subject to the FCRA. The holding resolves the issue before the  
16 Court and necessitates granting Summary Judgment must be granted. Plaintiffs allege no  
17 causes of action other than violations of the FCRA, and so this case also must be dismissed.

18 **IT IS THEREFORE ORDERED** granting Defendant’s Motion for Summary  
19 Judgment (Doc. 107).

20 **IT IS FURTHER ORDERED** denying Plaintiffs’ Motion for Partial Summary  
21 Judgment (Doc. 118).

22 **IT IS FURTHER ORDERED** denying as moot Defendant’s Motion to Exclude  
23 Evan D. Hendricks (Doc. 116), Defendant’s Motion to Exclude Lisa Lund (Doc. 117), and  
24 Plaintiffs’ Motion in Limine to Exclude Testimony of Neal Librock (Doc. 123).

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1           **IT IS FURTHER ORDERED** directing the Clerk of Court to enter judgment for  
2 Defendant and close this case.

Dated this 15th day of January, 2019.

Honorable John J. Tuchi  
United States District Judge